

**REPORT OF THE AUDIT OF THE
HENRY COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE HENRY COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Henry County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$5,113,851 as of June 30, 2004. The fiscal court had unrestricted net assets of \$3,230,613 in its governmental activities as of June 30, 2004, with total net assets of \$5,113,851.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Henry County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Henry County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has not presented the management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statements but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit it and express no opinion on it.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
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Members of the Henry County Fiscal Court

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Henry County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statement taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 9, 2005, on our consideration of Henry County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 9, 2005

HENRY COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

John Logan Brent	County Judge/Executive
John Allgeier	Magistrate
Jerry Beasley	Magistrate
David Brown	Magistrate
Michael Fisher	Magistrate
Wayne Gunnell	Magistrate
Cecil McCarty	Magistrate

Other Elected Officials:

Virginia Harrod	County Attorney
Neil Stivers	Jailer
Juanita Lashley	County Clerk
Leland Payton	Circuit Court Clerk
G.R. "Bobby" Downey	Sheriff
Jason Scriber	Property Valuation Administrator
James Pollard	Coroner

Appointed Personnel:

Mary A. Scriber	County Treasurer
Peggy V. Bryant	Finance Officer

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HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

HENRY COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 3,230,613
Noncurrent Assets:	
Capital Assets - Net of Accumulated Depreciation	
Land	362,166
Buildings	1,010,979
Equipment	270,785
Vehicles	385,044
Infrastructure Assets - Net of Depreciation	<u>167,669</u>
Total Noncurrent Assets	<u>2,196,643</u>
Total Assets	<u>5,427,256</u>
LIABILITIES	
Current Liabilities:	
Financing Obligation	15,329
Noncurrent Liabilities:	
Financing Obligation	<u>298,076</u>
Total Liabilities	<u>313,405</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	\$ 1,883,238
Unrestricted	<u>3,230,613</u>
Total Net Assets	<u><u>\$ 5,113,851</u></u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Functions/Programs	Expenses	Program Revenues Received		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$ 1,513,648	\$	\$	\$
Protection to Persons and Property	787,391	212,138	57,953	
General Health and Sanitation	113,476		21,872	
Social Services	17,500			
Recreation and Culture	56,508	700		
Roads	500,053			
Interest on Long Term Debt	102,949			
Capital Projects	186,745			279,766
Total Governmental Activities	3,278,270	212,838	79,825	279,766

General Revenues:

Taxes:

 Real Property Taxes

 Personal Property Taxes

 Motor Vehicle Taxes

 Other Taxes

Excess Fees

Licenses and Permits

Intergovernmental Revenues

Miscellaneous Revenues

Accrued Interest Received

Total General Revenues

Change in Net Assets

Net Assets - Beginning (restated)

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

HENRY COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues
and Changes in Net Assets

Governmental
Activities

\$ (1,513,648)
 (517,300)
 (91,604)
 (17,500)
 (55,808)
 (500,053)
 (102,949)
93,021

(2,705,841)

607,639
 66,277
 95,477
 301,194
 107,040
 166,443
 1,183,290
 674,931
27,598

3,229,889

524,048

4,589,803

\$ 5,113,851

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HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

HENRY COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and Cash Equivalents	\$ 1,257,036	\$ 1,606,159	\$ 2,657	\$ 364,761	\$ 3,230,613
Total Assets	<u>\$ 1,257,036</u>	<u>\$ 1,606,159</u>	<u>\$ 2,657</u>	<u>\$ 364,761</u>	<u>\$ 3,230,613</u>
FUND BALANCES					
Unreserved:					
General Fund	\$ 1,257,036	\$	\$	\$	\$ 1,257,036
Special Revenue Funds		1,606,159	2,657	364,761	1,973,577
Total Fund Balances	<u>\$ 1,257,036</u>	<u>\$ 1,606,159</u>	<u>\$ 2,657</u>	<u>\$ 364,761</u>	<u>\$ 3,230,613</u>

**Reconciliation of the Balance Sheet-Governmental Funds
to the Statement of Net Assets:**

Total Fund Balances	\$ 3,230,613
Amounts Reported For Governmental Activities in the Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and Therefore Are Not Reported in the Funds.	3,373,031
Depreciation	(1,176,388)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Financing Obligations	<u>(313,405)</u>
Net Assets of Governmental Activities	<u>\$ 5,113,851</u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

HENRY COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
Taxes	\$ 978,252	\$	\$	\$ 92,335	\$ 1,070,587
Excess Fees	107,040				107,040
Licenses and Permits	166,443				166,443
Intergovernmental	338,802	778,545	80,301	345,234	1,542,882
Charges for Services	212,838				212,838
Miscellaneous	661,867	304	142	12,618	674,931
Interest	12,246	13,251	274	1,826	27,597
Total Revenues	<u>2,477,488</u>	<u>792,100</u>	<u>80,717</u>	<u>452,013</u>	<u>3,802,318</u>
EXPENDITURES					
General Government	1,075,042			7,595	1,082,637
Protection to Persons and Property	333,521		407,827	39,433	780,781
General Health and Sanitation	90,901	1,514		21,061	113,476
Social Services				17,500	17,500
Recreation and Culture	48,355			2,094	50,449
Roads		542,293			542,293
Debt Service	21,919			95,874	117,793
Capital Projects				469,896	469,896
Administration	419,650	86,051	13,017		518,718
Total Expenditures	<u>1,989,388</u>	<u>629,858</u>	<u>420,844</u>	<u>653,453</u>	<u>3,693,543</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>488,100</u>	<u>162,242</u>	<u>(340,127)</u>	<u>(201,440)</u>	<u>108,775</u>
Other Financing Sources (Uses)					
Transfers from Other Funds	206,474	(205,038)	330,000	123,272	454,708
Transfers to Other Funds	(453,272)			(1,436)	(454,708)
Total Other Financing Sources (Uses)	<u>(246,798)</u>	<u>(205,038)</u>	<u>330,000</u>	<u>121,836</u>	
Net Change in Fund Balances	241,302	(42,796)	(10,127)	(79,604)	108,775
Fund Balances - Beginning	1,015,734	1,648,955	12,784	444,365	3,121,838
Fund Balances - Ending	<u>\$ 1,257,036</u>	<u>\$ 1,606,159</u>	<u>\$ 2,657</u>	<u>\$ 364,761</u>	<u>\$ 3,230,613</u>

The accompanying notes are an integral part of the financial statements.

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HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

**HENRY COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$	108,775
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Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Is Allocated Over their Estimated Useful Lives and Reported as Depreciation Expense.

Capital Outlay		451,198
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Depreciation Expense		(143,920)
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Lease and Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources.

Financing Obligations		107,995
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Change in Net Assets of Governmental Activities	\$	524,048
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TO THE FINANCIAL STATEMENTS**

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HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government-wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivable are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Henry County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service.

Additional - Henry County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

Kentucky law provides for election of the officials above from the geographic area constituting Henry County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets are not reflected in the financial statements.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, and expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major. Henry County does not report any proprietary funds.

Governmental Funds

The government reports the following major governmental funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Governor's Office for Local Development requires the fiscal court to maintain these revenues and expenditures separately from the General Fund.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

The government also has the following nonmajor funds: Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Water Grant Fund, 911-EMS Fund, and Fair Fund, which are presented as Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Solid Waste Grant Fund, Water Grant Fund, 911-EMS Fund, and Fair Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed. Henry County has chosen to not report infrastructure retroactively.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Infrastructure	\$ 20,000	10-25

F. Long-term Obligations

In the government-wide financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amounts of capital leases are reported.

In the fund financial statements, governmental funds recognize capital lease interest when paid, during the current period. The principal amount of the debt and interest are reported as expenditures.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however, encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The County maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the County's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the County as beneficiary/obligee on the bond.

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land	\$ 172,166	\$ 190,000	\$	\$ 362,166
Total Capital Assets Not Being Depreciated	172,166	190,000		362,166
Capital Assets, Being Depreciated:				
Buildings	1,287,865			1,287,865
Equipment	497,537			497,537
Vehicles	964,265	74,899		1,039,164
Infrastructure		186,299		186,299
Total Capital Assets Being Depreciated	2,749,667	261,198		3,010,865
Less Accumulated Depreciation For:				
Buildings	(259,290)	(17,596)		(276,886)
Equipment	(207,817)	(18,935)		(226,752)
Vehicles	(565,361)	(88,759)		(654,120)
Infrastructure		(18,630)		(18,630)
Total Accumulated Depreciation	(1,032,468)	(143,920)		(1,176,388)
Total Capital Assets, Being Depreciated, Net	1,717,199	117,278		1,834,477
Governmental Activities Capital Assets, Net	<u>\$ 1,889,365</u>	<u>\$ 307,278</u>	<u>\$ 0</u>	<u>\$ 2,196,643</u>

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 11,361
Protection to Persons and Property	68,492
Recreation and Culture	6,059
Roads, Including Depreciation of General Infrastructure Assets	<u>58,008</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 143,920</u>

HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)

Note 4. Short-term Debt

In July 2003, Henry County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$743,100, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings from the Kentucky Association of Counties Kentucky Advance Revenue Program of \$216.

Note 5. Long-term Liabilities

A. Capital Lease

On October 29, 1999 Henry County Fiscal Court entered into a financial obligation agreement with the Kentucky Association of Counties Leasing Trust Program for the purchase of the Courthouse Annex county office building in the amount of \$375,000. The obligation was refinanced on May 7, 2001, with the terms being changed to a variable interest rate on the unpaid principal, and with monthly payments due the 20th of each month. The obligation is to be paid in full on May 20, 2020. The following table shows the scheduled interest (based upon an interest rate of 4%) and principal amounts during the next five years and thereafter:

<u>Fiscal Year Ended</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
June 30, 2005	9,887	15,329
June 30, 2006	9,400	15,829
June 30, 2007	8,881	16,346
June 30, 2008	8,358	16,879
June 30, 2009	7,779	17,430
2010-2014	30,003	96,067
2015-2019	13,186	112,806
2020	281	22,719
Totals	<u>\$ 87,775</u>	<u>\$ 313,405</u>

B. Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental Activities:</u>					
Financing Obligation	\$ 421,400	\$	\$ 107,995	\$ 313,405	\$ 15,329

**HENRY COUNTY
NOTES TO FINANCIAL STATEMENTS
FISCAL YEAR ENDED JUNE 30, 2004
(Continued)**

Note 6. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2004, Henry County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Changes in Accounting Principles and Prior Period Adjustments

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements. The effect of this change on the beginning net assets of the governmental type activities is an increase of \$ 1,467,965 due to capital assets previously not reported.

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 906,500	\$ 906,500	\$ 978,252	\$ 71,752
Excess Fees	23,004	23,004	107,040	84,036
Licenses and Permits	95,000	95,000	166,443	71,443
Intergovernmental Revenue	168,574	168,574	338,802	170,228
Charges for Services	127,500	127,500	212,838	85,338
Miscellaneous	713,240	713,240	661,867	(51,373)
Interest	11,200	11,200	12,246	1,046
Total Revenues	<u>\$ 2,045,018</u>	<u>\$ 2,045,018</u>	<u>\$ 2,477,488</u>	<u>\$ 432,470</u>
EXPENDITURES				
General Government	\$ 1,164,701	\$ 1,193,186	\$ 1,075,042	\$ 118,144
Protection to Persons and Property	417,440	481,513	333,521	147,992
General Health and Sanitation	92,504	92,704	90,901	1,803
Recreation and Culture	61,306	67,106	48,355	18,751
Debt Service	35,000	35,000	21,919	13,081
Capital Projects	60,000	60,000		60,000
Administration	587,956	489,398	419,650	69,748
Total Expenditures	<u>\$ 2,418,907</u>	<u>\$ 2,418,907</u>	<u>\$ 1,989,388</u>	<u>\$ 429,519</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (373,889)</u>	<u>\$ (373,889)</u>	<u>\$ 488,100</u>	<u>\$ 861,989</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	\$ 35,000	\$ 35,000	\$ 0	\$ (35,000)
Transfers from Other Funds	97,987	97,987	206,474	108,487
Transfers to Other Funds	(417,469)	(417,469)	(453,272)	(35,803)
Total Other Financing Sources (Uses)	<u>\$ (284,482)</u>	<u>\$ (284,482)</u>	<u>\$ (246,798)</u>	<u>\$ 37,684</u>
Net Changes in Fund Balance	\$ (658,371)	\$ (658,371)	\$ 241,302	899,673
Fund Balance - Beginning	<u>658,371</u>	<u>658,371</u>	<u>1,015,734</u>	<u>357,363</u>
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,257,036</u>	<u>\$ 1,257,036</u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 820,610	\$ 820,610	\$ 778,545	\$ (42,065)
Miscellaneous	1,000	1,000	304	(696)
Interest	23,310	23,310	13,251	(10,059)
Total Revenues	<u>\$ 844,920</u>	<u>\$ 844,920</u>	<u>\$ 792,100</u>	<u>\$ (52,820)</u>
EXPENDITURES				
General Health and Sanitation	\$ 1,515	\$ 1,515	\$ 1,514	\$ 1
Roads	803,250	803,250	542,293	260,957
Administration	100,500	100,500	86,051	14,449
Total Expenditures	<u>\$ 905,265</u>	<u>\$ 905,265</u>	<u>\$ 629,858</u>	<u>\$ 275,407</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (60,345)</u>	<u>\$ (60,345)</u>	<u>\$ 162,242</u>	<u>\$ 222,587</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds				
Transfers to Other Funds	<u>\$ (97,987)</u>	<u>\$ (97,987)</u>	<u>\$ (205,038)</u>	<u>\$ (107,051)</u>
Total Other Financing Sources (Uses)	<u>\$ (97,987)</u>	<u>\$ (97,987)</u>	<u>\$ (205,038)</u>	<u>\$ (107,051)</u>
Net Changes in Fund Balance	\$ (158,332)	\$ (158,332)	\$ (42,796)	\$ 115,536
Fund Balance - Beginning	<u>158,332</u>	<u>158,332</u>	<u>1,648,955</u>	<u>1,490,623</u>
Fund Balance - Ending	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 1,606,159</u></u>	<u><u>\$ 1,606,159</u></u>

HENRY COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 73,081	\$ 73,081	\$ 80,301	\$ 7,220
Charges for Services	500	500		(500)
Miscellaneous	6,000	6,000	142	(5,858)
Interest	1,000	1,000	274	(726)
Total Revenues	<u>\$ 80,581</u>	<u>\$ 80,581</u>	<u>\$ 80,717</u>	<u>\$ 136</u>
EXPENDITURES				
Protection to Persons and Property	\$ 484,580	\$ 484,580	\$ 407,827	\$ 76,753
Administration	13,470	13,470	13,017	453
Total Expenditures	<u>\$ 498,050</u>	<u>\$ 498,050</u>	<u>\$ 420,844</u>	<u>\$ 77,206</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>\$ (417,469)</u>	<u>\$ (417,469)</u>	<u>\$ (340,127)</u>	<u>\$ 77,342</u>
OTHER FINANCING SOURCES (USES)				
Transfers from Other Funds	<u>\$ 417,469</u>	<u>\$ 417,469</u>	<u>\$ 330,000</u>	<u>\$ (87,469)</u>
Transfers to Other Funds				
Total Other Financing Sources (Uses)	<u>\$ 417,469</u>	<u>\$ 417,469</u>	<u>\$ 330,000</u>	<u>\$ (87,469)</u>
Net Changes in Fund Balance	\$ 0	\$ 0	\$ (10,127)	\$ (10,127)
Fund Balance - Beginning			12,784	12,784
Fund Balance - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 2,657</u>	<u>\$ 2,657</u>

HENRY COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information**

June 30, 2004

HENRY COUNTY
COMBINING BALANCE SHEET -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund	911-EMS Fund	Fair Fund	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 99,994	\$ 22,289	\$ 28,370	\$ 149,736	\$ 64,372	\$ 364,761
FUND BALANCES						
Unreserved:						
Special Revenue Funds	\$ 99,994	\$ 22,289	\$ 28,370	\$ 149,736	\$ 64,372	\$ 364,761

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HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

HENRY COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	LGEA Fund	Federal Grant Fund	Solid Waste Grant Fund	Water Grant Fund
REVENUES				
Taxes	\$	\$	\$	\$
Intergovernmental	41,400		24,068	279,766
Miscellaneous		2,618		
Interest	432	681	99	
Total Revenues	<u>\$ 41,832</u>	<u>\$ 3,299</u>	<u>\$ 24,167</u>	<u>\$ 279,766</u>
EXPENDITURES				
General Government	\$	\$ 7,595	\$	\$
Protection to Persons and Property				
General Health and Sanitation			21,061	
Social Services	17,500			
Recreation and Culture				
Debt Service		95,874		
Capital Projects		190,130		279,766
Total Expenditures	<u>\$ 17,500</u>	<u>\$ 293,599</u>	<u>\$ 21,061</u>	<u>\$ 279,766</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>24,332</u>	<u>(290,300)</u>	<u>3,106</u>	
OTHER FINANCING SOURCES (USES)				
Transfers to Other Funds			(1,436)	
Transfers from Other Funds			26,700	
Total Other Financing Sources (Uses)			<u>25,264</u>	
Net Change in Fund Balances	24,332	(290,300)	28,370	
Fund Balances - Beginning	75,662	312,589		
Fund Balances - Ending	<u>\$ 99,994</u>	<u>\$ 22,289</u>	<u>\$ 28,370</u>	<u>\$ 0</u>

HENRY COUNTY**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS****Other Supplementary Information****For The Year Ended June 30, 2004****(Continued)**

911-EMS Fund	Fair Fund	Total Non-Major Governmental Funds
\$ 92,335	\$	\$ 92,335
		345,234
	10,000	12,618
262	352	1,826
<u>\$ 92,597</u>	<u>\$ 10,352</u>	<u>\$ 452,013</u>
\$ 39,433	\$	\$ 7,595
		39,433
		21,061
		17,500
	2,094	2,094
		95,874
		469,896
<u>\$ 39,433</u>	<u>\$ 2,094</u>	<u>\$ 653,453</u>
<u>53,164</u>	<u>8,258</u>	<u>(201,440)</u>
		(1,436)
96,572		123,272
<u>96,572</u>		<u>121,836</u>
149,736	8,258	(79,604)
	56,114	444,365
<u>\$ 149,736</u>	<u>\$ 64,372</u>	<u>\$ 364,761</u>

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable John Logan Brent, Henry County Judge/Executive
Members of the Henry County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Henry County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 9, 2005. Henry County presents its financial statements in accordance with the modified cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Henry County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Henry County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, Henry County Fiscal Court, and the Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
June 9, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

HENRY COUNTY FISCAL COURT

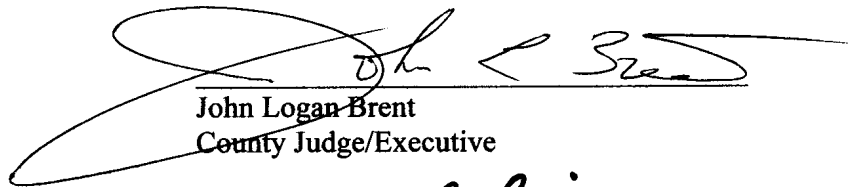
**For The Fiscal Year Ended
June 30, 2004**

CERTIFICATION OF COMPLIANCE

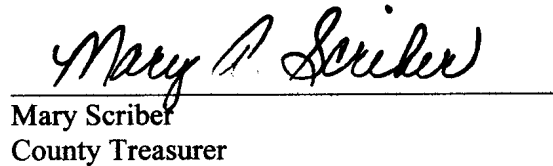
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM
HENRY COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2004

The Henry County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



John Logan Brent
County Judge/Executive



Mary Scriber
County Treasurer